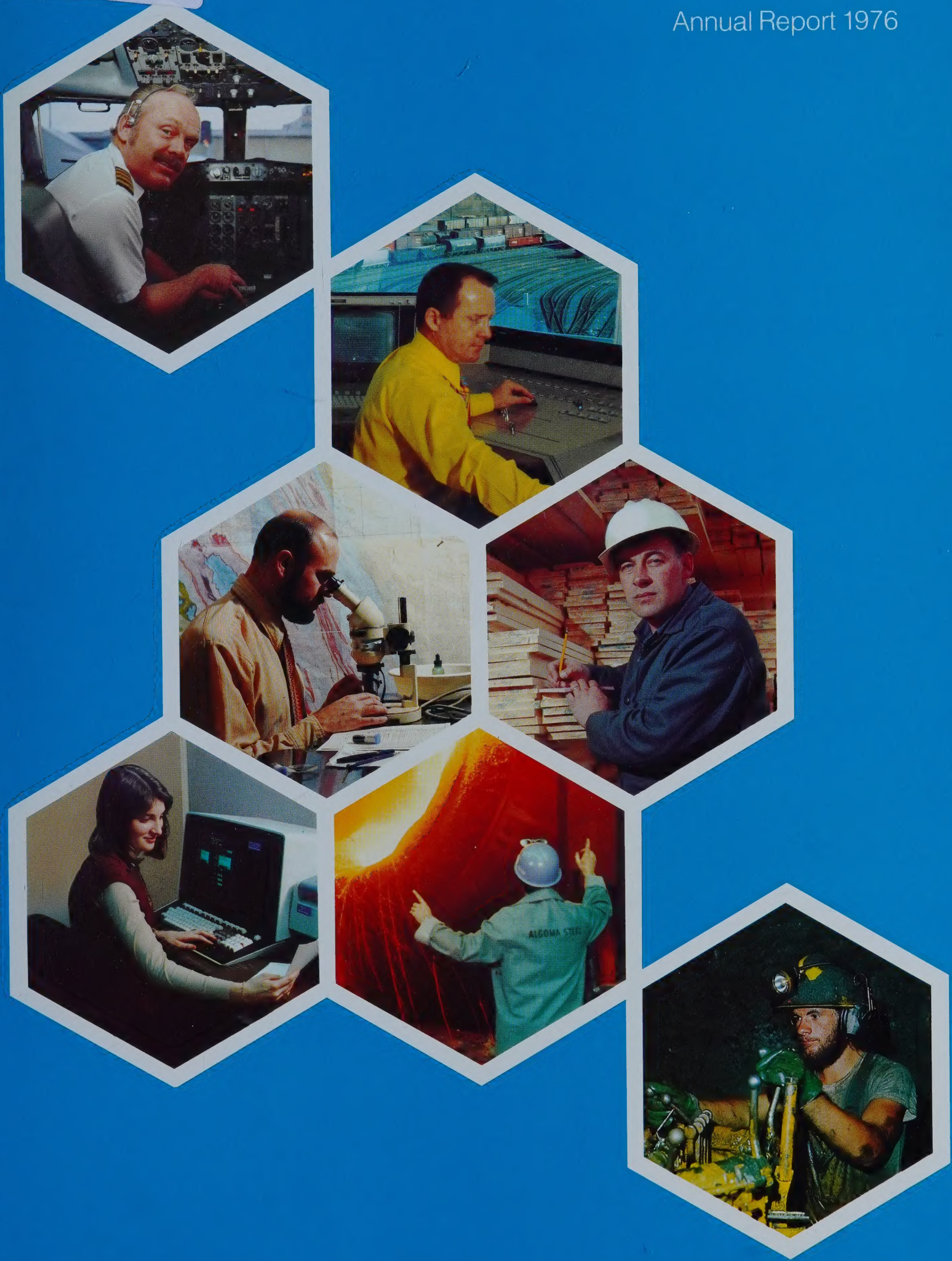
Canadian Pacific Limited

Annual Report 1976



Canadian Pacific Limited

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*Member of the Executive Committee
†Member of the Audit Committee

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F. S. Burbidge, *President,* Montreal

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J. A. McDonald, *Vice-President Corporate Development,* Montreal

P. A. Nepveu, *Vice-President Finance and Accounting,* Montreal

R. T. Riley, *Vice-President Administration,* Montreal

J. C. Ames, *Secretary,* Montreal

J. P. T. Clough, *Comptroller,* Montreal

D. E. Sloan, *Treasurer,* Montreal

1977 Annual General Meeting

The Annual General Meeting of the Shareholders is to be held on Wednesday, May 4th, 1977, at Le Château Champlain, Place du Canada, Montreal, at eleven a.m. (daylight saving time, if operative).

Contents

Stock Transfer Agents

The Royal Trust Company,
1648 Hollis Street, Halifax, N.S. B3J 1V7;
Brunswick House,
1 King Street, Saint John, N.B. E2L 1G1;
630 Dorchester Boulevard West,
Montreal, P.Q. H3B 1S6;
Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5W 1P9;
287 Broadway,
Winnipeg, Manitoba R3C 0R9;
101 McCallum Hill Building,
Regina, Saskatchewan S4P 2G6;
700 The Dome Tower, Oxford Square,
Calgary, Alberta T2P 2Z1;
Royal Trust Tower, Bentall Centre,
555 Burrard Street,
Vancouver, B.C. V7X 1K2.

Bank of Montreal Trust Company,
2 Wall Street, New York, New York 10005

Deputy Secretary,
8 Waterloo Place,
London SW1Y 4AQ, England

Stock Holdings

The number of registered holdings of the voting capital stock of the Company at December 31, 1976 was 70,538.

The distribution by countries of total voting rights of the Ordinary and Preference Stock at that date was as follows:

Canada	69.36%
United States	14.60
United Kingdom	7.94
Other Countries	8.10
	100.00%

Stock Listings

Debenture Stock (Sterling) listed on:
London Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Stock (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preference Stock (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preferred Shares, Series A listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Ordinary Stock listed on:
Montreal, Toronto, Vancouver, New York and London, Eng. Stock Exchanges

Shareholders having inquiries should write to:
J. C. Ames, Secretary,
Canadian Pacific Limited,
P.O. Box 6042, Station A,
Montreal, Canada,
H3C 3E4

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Canada H3C 3E4

Canadian Pacific Limited

To the Shareholders

The Company's consolidated net income for the year of $190.4 million was $15.5 million, or 22¢ per Ordinary share higher than in 1975.

Dividends on the Ordinary shares, at 86¢, were restored to their 1974 level after a reduction to 84.5¢ in 1975. Of the 86¢ declared in 1976, 45¢ per share was the proceeds of dividends from Canadian Pacific Investments Limited, up 2¢ over 1975. There were no proceeds of dividends from Canadian Pacific Air Lines, Limited in 1976, compared with 1.5¢ per share in 1975.

Summarized Statement of Income of Canadian Pacific Limited

	1976	1975	Increase or (Decrease)
	(in millions)		
Net income from:			
CP Rail	**$ 51.1**	$ 31.7	$19.4
CP Trucks	**1.8**	2.9	(1.1)
CP Telecommunications	**2.0**	1.4	0.6
CP Air	**(9.8)**	(6.4)	(3.4)
CP Ships	**3.6**	14.6	(11.0)
Miscellaneous	**15.1**	4.2	10.9
CP Investments Limited	**117.7**	120.6	(2.9)
Equity in income of subsidiary not consolidated	**8.9**	5.9	3.0
Net income	**$190.4**	$174.9	$15.5
Per Ordinary share:			
Net income	**$2.62**	$2.40	$0.22
Dividends	**0.86**	0.845	0.015

The year was far from being all of one pattern. By quarters, the Company's earnings fluctuated considerably. A drop in the first quarter was followed by a good increase in the second; in the third, earnings were flat, and in the final quarter they moved ahead again.

By line of business, results were similarly uneven, with some activities producing substantially higher earnings, and some substantially lower. The lacklustre performance of the American economy disappointed expectations that vigorous recovery in the U.S. would provide stimulation to the Canadian economy. The rather halting growth that occurred instead, did little to help Canadian producers cope with a worrisome combination of high costs and weak markets. For the most part, business profits did not provide much encouragement for making new investment. The most positive features of the year were a welcome moderation in the rate of inflation and some reduction in the range and scale of labour disruptions.

The diversified nature of the Company's interests was a key factor in its better 1976 performance. Rail, oil and gas and miscellaneous income accounted for the largest gains in earnings. Both CP Rail and the Soo Line Railroad had poor results in 1975 because of recession and strikes affecting their customers. In 1976, they were able to make a recovery under conditions of some economic growth and an improvement in the strike situation. Income from oil and gas operations was up largely due to price increases, but there was an increase in natural gas production. The main reason for higher miscellaneous income was a gain on a larger than usual sale of land.

Decreases were sizeable in income from metal and coal mining and from iron and steel, despite inclusion in the latter of additional income from Steep Rock Iron Mines Limited, acquired by CPI in February 1976. Container shipping did better than in strike-ridden 1975, but earnings of the tanker/bulk carrier operation were substantially lower. Logging and lumber, real estate and telecommunications showed better results, while hotels made less money, and airline operations incurred a larger loss. CPI's investment income improved over 1975.

Canadian Pacific Consulting Services enjoyed another year of substantial growth in Canada and abroad. In 1976, Transource Inc. was formed, in partnership with a U.S. group, to develop transportation and resource consulting business in the U.S.

Summarized Statement of Net Income from CP Investments Limited

	1976	1975	Increase or (Decrease)
	(in millions)		
Oil and gas	**$ 74.1**	$ 59.8	$14.3
Mines and minerals	**32.4**	53.8	(21.4)
Forest products	**5.2**	1.8	3.4
Iron and steel	**13.4**	21.8	(8.4)
Real estate	**10.4**	7.7	2.7
Hotels and food services	**—**	3.3	(3.3)
Finance	**2.3**	1.4	0.9
Other operations	**0.8**	(0.4)	1.2
Investment income	**1.5**	(7.2)	8.7
	140.1	142.0	(1.9)
Interest of outside CPI shareholders	**22.4**	21.4	1.0
Net income to CP Limited	**$117.7**	$120.6	$ (2.9)

At mid-year, Canadian Pacific Investments Limited purchased from the Company all its shares of Chateau Insurance Company, which was incorporated in 1974 and licensed to transact all classes of insurance except life. In May, Chateau took over the Canadian business of the Aetna Insurance Company and now has widespread representation across Canada, specializing in commercial and industrial accounts.

In addition to expanding its iron and steel interests, through acquisition of control of Steep Rock Iron Mines Limited, CP Investments also broadened the scope of its agricultural recycling interests. Late in the year its wholly-owned subsidiary, CanPac AgriProducts Limited, acquired all the outstanding shares of Baker Commodities, Inc. of Los Angeles, a rendering company with operations in a number of Western states.

During 1976 Canadian Pacific Limited announced new projects in the field of bulk liquids storage and terminal operations. Unitank Limited, in which the Company has a 50% interest, began construction of a terminal at Quebec City to handle and store chemicals, edible oils and fats, and some petroleum products. The terminal, largest of its kind in Canada, will begin operating in 1977. Another development was the incorporation of a new subsidiary, CanPak Terminals Limited, to identify, and to develop in association with the minority shareholder, Paktank U.S.A., opportunities for third-party storage and terminal services for a wide range of petroleum products. A further outcome of these initiatives was the setting up of a separate partly-owned subsidiary, Lorneterm LNG Limited, with a view to constructing and operating a deepwater terminal at Saint John, N.B. to process liquefied natural gas for piping to North American markets.

At year end, the Company's net property investment totalled $4,663 million, of which 86% was located in Canada. A table on the inside back cover gives the geographic distribution of this investment.

There are enough favourable factors in the outlook for the Company's earnings in 1977 to warrant a fair degree of optimism. The moderate rate of growth forecast for the Canadian economy and the probability of some increase in international trade improve the prospects of the transportation sector. The resource and other activities of CP Investments, which contribute the major portion of the Company's earnings, would also benefit from any upward movement in the domestic, and world, economy. It is expected that there will be less unfavourable impact on CPI from labour disruptions than in 1976, and companies in the CPI group that sell in foreign currencies will do better if the value of the Canadian dollar remains lower than last year.

The Directors wish to record their appreciation to customers and to officers and employees for the contribution each made to the success of the year.

For the Directors,

F. S. Burbidge

President

Ian D. Sinclair

Chairman and Chief Executive Officer

Montreal, March 14, 1977.

CP Rail

Net income from CP Rail of $51.1 million was up $19.4 million over 1975. Rates of increase in costs, although still high, were lower than those experienced in 1975. Wage rates were up 11% in 1976, under a two-year contract signed with the railway unions that also provides for an increase in wages of 8.27% in 1977. Diesel fuel prices were 11% higher during the year, prices of material other than fuel were up an average of 7%, while pension expenses increased 23%. Freight price adjustments were necessary to cover the additional costs. The higher proportion of more remunerative traffic carried during the year, as well as improved operating efficiency and productivity gains in equipment and track maintenance programs, contributed to the year's better results.

The Snavely Commission on the costs of transporting grain by rail released its report in 1976, concluding that the railways suffer substantial losses carrying export grain, even on a variable cost basis. Now that an independent authority has established a basis for determining the size of the losses, it remains for the Government to decide the manner in which the railways are to recover them.

The Government announced during 1976 that it intends to pay the full cost of inter-city passenger losses once the basic inter-city passenger network is in place. At present, losses on such services are borne 80% by the Government and 20% by the companies.

Early in 1977 an Act to amend the National Transportation Act and the Railway Act was introduced in Parliament. Among other things, this Act sets some new objectives for transportation policy in Canada and establishes a wholly new concept of maximum rates. Both changes lead in the direction of rejecting the market mechanism and substituting for it rate-making by government.

CP Trucks

Net income from CP Trucks, at $1.8 million, was down $1.1 million from 1975, largely attributable to the Trucking divisions. Revenues were unfavourably affected by intense competition and sluggish markets. As a consequence, rates could not be adjusted in phase with rising costs. Operations in and through Saskatchewan were unsettled by the confrontation with provincial regulatory authorities over highway vehicle licenses.

The Express division enjoyed a good year in 1976, and in November started a new venture, Canadian Parcel Delivery — known as CanPar — to handle small packages. Initial results have been encouraging and this specialized market will be developed in 1977. The Trucking divisions will concentrate in 1977 on improved marketing and continue tight expense control. The Bulk and Specialized Trucking division is looking to the acquisition of additional equipment and to more stable labour conditions in its markets in Western Canada to improve profitability.

CP Telecommunications

Net income from telecommunications of $2.0 million was $568,000 above 1975. Revenues increased by $5.2 million over 1975 and reflected both increased business volumes and higher rates. Firm control over expenses limited their increase to $4.6 million, about half of which was in wage costs.

In conjunction with CN Telecommunications, an application for a rate increase to be effective in mid-1977 is being filed with the regulatory authorities. With these rates, and with increased volume and improved productivity, wage and other cost increases should be more than offset and the rate of return should improve, but would still be inadequate.

An application filed with the regulatory authorities last June would, if successful, enable CP Telecommunications to provide competitive services it cannot at present because of Bell Canada's refusal to allow access to the local switched distribution network.

CP Air

The Canadian airline industry continued to experience low traffic growth and high increases in costs in 1976. This basic difficulty was compounded for CP Air by the 9-day work stoppage of air traffic controllers and pilots in Canada in June, and labour disruptions in Mexico that prevented operations into and out of that country for most of the year.

CP Air's loss for the year amounted to $9.8 million, compared with a loss of $6.4 million in 1975. Because of its losses, the company was unable to resume dividend payments, which ceased in the second half of 1975.

Revenues increased $18.5 million, reflecting mainly rate increases on most routes, while the rise in expenses, due largely to higher labour and fuel costs, was $21.9 million. Cost reduction programs included the tailoring of routings to make optimum use of existing capacity. The company cut back peak summer frequencies on the North Atlantic route and, effective October 31, suspended service to Madrid and Tel Aviv and between Amsterdam and Rome. Service from Eastern Canada to Mexico resumed October 31, but with greatly reduced capacity, and flights from Western Canada to Mexico are still suspended.

A separate charter division was established early in the year to expand CP Air's operations in this rapidly growing market.

The company's prospects for 1977 are clouded by the fact that growth in airline traffic is expected to continue at a low rate and that revenue yields will continue to be inadequate. On the cost side, the effects of manpower reductions, the suspension of services on selected routes and the rescheduling of flights to meet market conditions are all expected to contribute to improving results.

A copy of the financial statements of CP Air for 1976 can be obtained by writing to its Secretary at Vancouver International Airport, Vancouver, B.C. V7B 1V1.

CP Ships

Net income from CP Ships amounted to $3.6 million in 1976, compared with $14.6 million in 1975.

Net income from CP Steamships, Limited amounted to $2.4 million, an increase of $1.1 million over 1975. The higher level of earnings reflected a 21% increase in the number of containers carried, much of which was due to the absence of labour disputes such as those that plagued operations in 1975.

Average container revenues declined due to the weakening of sterling and to severe competitive pressures which held down rates. Although costs continued to climb, the effect was mitigated to some extent by the weakness of sterling.

There are no signs of a vigorous upturn in North Atlantic trade, and rate levels will therefore probably continue under pressure in 1977. Whatever growth in income can be achieved will be through selective market development.

Net income from CP (Bermuda) amounted to $1.1 million, a decrease of $12.1 million from 1975. Although much of the decrease reflected the absence of the non-recurring income which contributed $9.5 million to 1975 earnings, the continued depressed state of the shipping market was also an important factor. Throughout most of 1976 nearly one quarter of the world's tanker fleet was surplus to market requirements. No CP (Bermuda) vessels, however, are laid up; one vessel that was laid up in the summer of 1975 was returned to service last Spring. The fall in the value of sterling tended to hold down the rise in operating expenses, but the discount on the U.S. dollar had an adverse effect on revenues, most of which are earned in U.S. dollars.

Three new vessels were delivered during the year — one product tanker and two small geared bulk carriers. An additional seven bulk carriers are on order which, when delivered in 1977 and 1978, will bring the total fleet to 32 vessels.

The outlook for 1977 remains uncertain. Recovery in markets for dry cargo ships depends largely on economic growth in the U.S., Japan and Europe. However, the substantial surplus of crude oil tanker tonnage is unlikely to be worked off for some years. Fortunately, CP (Bermuda) has four of its five crude oil tankers on charter until the 1980's; the fifth was placed on the spot market after coming off charter during 1976. The market for the company's eight product tankers should gradually improve as obsolescence reduces the world fleet.

The CP (Bermuda) fleet is well balanced and possesses highly marketable features. The company's policy is, basically, to continue to employ both new vessels and those coming off charter on the spot or short term market rather than commit them for long periods at present depressed rates. The fleet will thus be able to capitalize on any significant upturn in the market.

Miscellaneous Income

Of the increase of $10.9 million in miscellaneous income for the year, $8.4 million was from the sale of land formerly occupied by railway facilities in Quebec City. The balance was principally higher interest earnings and exchange credits due to the rise in the exchange rate of the Canadian dollar.

CP Investments Limited

Net income from CP Investments Limited amounted to $117.7 million, compared with $120.6 million in 1975.

PanCanadian Petroleum Limited had an excellent year in 1976, with higher oil and gas prices contributing significantly to the increase in income. Production of crude oil and natural gas liquids decreased almost 6% from 1975, primarily because of marketing difficulties with heavy crude oil, while gas production increased 4% over 1975. During 1976, PanCanadian's exploration and development activities in Canada resulted in considerable success in Southern Alberta, which for many years has been the focus of the company's activities. In the United States, PanCanadian acquired interests in the Gulf of Alaska and the East Coast outer continental shelf. Preparations to drill offshore Greenland in mid-1977 are under way. Because of adverse conditions that developed in 1976 with respect to the sale in the U.S. of production from the Brooks Ammonia Project, it was decided to defer on-site construction. As a result, PanCanadian amortized during the year $8 million of equipment and design costs of a total of $42 million expended on this project.

Cominco Ltd. had lower earnings than in the prior year. CPI's 53.9% share of 1976 earnings amounted to $24.4 million, down $15.3 million from 1975. The decrease reflected lower prices for zinc, lead, chemical fertilizers and potash, higher operating costs, and unfavourable exchange rates. While the price for lead firmed in the second half of 1976, the world price for zinc remained at depressed levels. Cominco's potash mine in Saskatchewan earned an operating profit, but continued in a loss position after paying the high mineral and other taxes and royalties imposed by the

Saskatchewan Government. The new ammonia-urea complex south of Calgary was coming on stream at year end. The Rubiales zinc-lead mine in Spain is expected to begin production in the first quarter of 1977. During 1976, Cominco issued $50 million of $2.00 tax deferred preferred shares of a par value of $25 per share, proceeds of which were used for capital expenditures and working capital.

Fording Coal Limited earned $9.0 million compared with $17.7 million in 1975. CPI's share, including its equity in Cominco's 40% share, amounted to $7.3 million. In addition, CPI received ownership payments from Fording of $2.0 million, compared with $2.9 million in 1975. The reduced earnings reflected a strike at the mine from May until September and a shortage of skilled tradesmen after work resumed.

The Great Lakes Paper Company, Limited experienced lower earnings due largely to cost inflation which could not be offset by higher prices and to the unfavourable exchange rate of the U.S. dollar. CPI's 55.6% share of the income of Great Lakes amounted to $2.7 million, down $900,000 from 1975. Earnings in both years were reduced by a strike of mill workers that began in September 1975 and ended in late February 1976. Shipments of all products were higher in 1976 because the shutdown due to the strike was shorter than in 1975. The start-up in November of the new kraft pulp mill marked completion of the diversification and expansion program that began in 1973.

Pacific Logging Company Limited had net income of $2.5 million in 1976, compared with a loss of $1.8 million in the previous year. Results in 1976 included a gain of $1.5 million on disposal of a share interest in a lumber mill. Continued over-supply in world markets for pulp resulted in excess supplies of pulp chips and pulp logs, which mainly accounted for the modest level of the year's income from operations.

The Algoma Steel Corporation, Limited had significantly lower earnings despite higher production of iron and raw steel and shipments of steel products. CPI's 51.5% share of these earnings amounted to $10.1 million, compared with $21.7 million in 1975. A substantial part of the year's decline was attributable to equipment problems at the steelworks and to the re-purchase of seamless tube inventories upon the takeover by Algoma of its own tube marketing. Also contributing to the lower earnings were increases in costs that could not be fully recovered from price increases and less favourable product mix. Costs of labour, energy and raw materials were higher, as were depreciation and interest. Price increases were limited by weakness in demand. Dominion Bridge Company, Limited, 43%-owned by Algoma, contributed $15.2 million to Algoma's earnings, compared with $12.4 million in 1975. During 1976, Algoma issued $60 million, 8% tax deferred preference shares of a par value of $25 per share, proceeds of which were used to reduce short term borrowings.

Steep Rock Iron Mines Limited, 68.1%-owned, contributed $2.5 million to CPI's income. No firm decision has yet been made regarding operation beyond 1979 at the present Atikokan, Ontario site. Both Steep Rock and Algoma are investigating the potential of another iron ore property in that area. Development of the Lake St. Joseph property is unlikely in the near future.

Marathon Realty Company Limited achieved record net income in 1976, reflecting additional earnings from recent acquisitions and newly completed projects, higher returns from longer established holdings, and increased land sales. During the year shopping centres were acquired in British Columbia and Quebec, and in Ottawa construction of a shopping centre is nearing completion. An office building was purchased in Toronto and sites for future development of office complexes were acquired in B.C. and in suburban Toronto. At year end, negotiations were near conclusion for the acquisition of an office development site in San Francisco, which will be Marathon's first venture in the U.S.

CP Hotels Limited had another difficult year in 1976, reflecting slow economic recovery and stiff competition in certain hotel markets. During the year the Frankfurt Plaza Hotel was opened in Frankfurt, Germany and a management contract was signed for a hotel in Curaçao, Netherlands Antilles. Within Canada, restaurants were opened in the Royal Bank Plaza in Toronto. Construction began on the hotel and adjoining flight kitchen at the new Calgary International Airport. Construction of the hotel at Montreal's Mirabel International Airport was delayed by strikes and the opening is now scheduled for mid-1977.

Finance and Other Operations both provided increases in income due to growth in leasing, the addition of insurance business and recovery in protein animal feed markets.

Investment income improved over 1975, when $6.2 million of costs in respect of CPI's participation in groups planning Arctic gas pipelines were written off. The other main factor in the increase was a gain on sales of investments in contrast to a loss in 1975.

A copy of the 1976 annual report of Canadian Pacific Investments Limited can be obtained by writing to the Secretary of that company at P.O. Box 6042, Station A, Montreal, Quebec H3C 3E4.

Directorate

In February 1977 Mr. Thomas G. Rust was appointed a Director to replace Mr. Denis W. Timmis, whose resignation in July 1976 was received with regret.

Summary of Significant Accounting Policies

General

Basic financial reporting and consolidation policy

Canadian Pacific Limited (CPL) has organized its enterprises into two distinct groups. CPL, directly and through subsidiaries, carries on the transportation enterprises. Canadian Pacific Investments Limited (CPI), in which CPL held 84.05% of the common shares (83.13% of total voting shares) at December 31, 1976 (85.14% and 83.66% respectively at December 31, 1975), is the vehicle through which all other operations are carried on.

The consolidated financial statements include the financial statements of CPL and all subsidiary companies with the exception of those of Soo Line Railroad Company, which operates a railroad in the Northwestern United States and is regulated by the Interstate Commerce Commission. CPL accounts for its investment in this company, which is 56% owned, by the equity method, and its summarized financial information is presented on page 18.

The statement of consolidated income on page 10 is designed to present clearly CPL's income from each of its two major operating groups. Income from transportation is further segregated between the major functions — rail, trucks, telecommunications, air and ships. A similar breakdown of income by function is presented on page 14 for the operations carried on through CPI. The significant accounting policies of each group are described below, and should be read in conjunction with the financial statements, the other financial information and the notes to consolidated financial statements.

Foreign exchange

Items in foreign currencies have been translated into Canadian dollars at current rates, except for properties and related depreciation, investments, long term debt and debenture and capital stocks, for which historical rates have been used. Gains or losses on exchange translation are included in or charged to income.

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 2027.

Income taxes

The companies follow the tax allocation basis of accounting for income taxes, whereby tax provisions are based on accounting income and taxes relating to timing differences between accounting and taxable income are deferred.

Earnings per share

Fully diluted earnings per share are calculated on the assumption that all preferred shares of CPI are converted at the beginning of the year.

Transportation

Income reporting by function

As explained above, CPL operates its various transportation enterprises as separate profit centres. CP Rail, comprising railway and coastal steamship operations, and CP Telecommunications, are departments of CPL. The remaining profit centres CP Trucks (Canadian Pacific Transport Company, Limited), CP Air (Canadian Pacific Air Lines, Limited) and CP Ships (Canadian Pacific Steamships, Limited, Canadian Pacific (Bermuda) Limited and CanPac International Freight Services Limited) are operated through wholly-owned subsidiary companies.

In order to present fairly the results by profit centre, charges for services performed by one profit centre for another, which are made at normal tariff or other arm's length rates, are not eliminated. Consolidated net income is not affected by this practice. Rent for leased railroads and interest on consolidated debenture stock are assigned to CP Rail, while other interest paid by CPL is allocated to CP Rail, CP Telecommunications and miscellaneous income as appropriate. Interest paid by other transportation companies is charged to their respective profit centres.

Income taxes charged by CPL are allocated to CP Rail, CP Telecommunications and miscellaneous income on the basis of accounting income as adjusted for non-taxable items. Taxes of other transportation companies are charged to their respective profit centres.

Properties

Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following which are charged to expenses:

1. Labour costs relating to track material replacements.
2. Renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for Class 1 Common Carriers by Railway of the Canadian Transport Commission.

Depreciation

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway and telecommunication properties, the rates used are as authorized by the Canadian Transport Commission. From April 1976, regulation of telecommunications was assumed by the Canadian Radio-television and Telecommunications Commission. When depreciable property is retired or otherwise disposed of, the total book value (less net salvage) is charged to accumulated depreciation.

Estimated service lives used for principal categories of assets are as follows:

Road diesel locomotives	20 years
Railway freight cars	30 years
Ships	20 to 25 years
Aircraft	12 to 15 years
Trucks	8 to 12 years

Non-Transportation

Income reporting by function

The non-transportation activities are carried on by CPI through its various subsidiary companies. These, classified by line of business, are as follows:

		Percent owned by CPI
Oil and gas	PanCanadian Petroleum Limited	87.10%
Mines and minerals	Cominco Ltd.	53.93%
	Fording Coal Limited	60% CPI and 40% Cominco
	CanPac Minerals Limited	60% CPI and 40% Cominco
Forest products	Pacific Logging Company Limited	100%
	The Great Lakes Paper Company, Limited	55.55%
Iron and steel	The Algoma Steel Corporation, Limited	51.46%
	Steep Rock Iron Mines Limited (acquired February 23, 1976)	68.13%
Real estate	Marathon Realty Company Limited	100%
Hotels and food services	Canadian Pacific Hotels Limited	100%
Finance	Canadian Pacific Securities Limited	100%
	CanPac Leasing Limited	100%
	Chateau Insurance Company (acquired from CPL July 31, 1976)	99.94%
Other operations	CanPac AgriProducts Limited	100%
	Baker Commodities, Inc. (acquired November 30, 1976)	100%
	Commandant Properties, Limited	100%

Algoma Steel has a 43.26% interest and CPI a 2.36% interest in Dominion Bridge Company, Limited, which is accounted for by the equity method. The equity in net income of Dominion Bridge is included in sales and operating revenue of Iron and Steel.

Steep Rock supplies iron ore pellets to Algoma Steel. In reporting the results of iron and steel operations in the analysis of CPI's operations on page 14, such sales ($27,482,000 in 1976) have been eliminated from sales and operating revenue and from expenses. Inter-company interest charges, amounting to $27,867,000 in 1976 and $16,355,000 in 1975, have not been eliminated in the analysis of CPI's operations in order to present fairly the results by activity. CPI's net income is not affected by this practice. Interest has been eliminated from CPI revenues and expenses in the CPL Statement of Consolidated Income on page 10. There are no other significant inter-company charges within the CPI group of companies.

Inventories

Raw materials and products of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Stores and materials are valued at cost less appropriate allowances for obsolescence.

Finished products and work in process of iron and steel operations are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to forest product operations) are valued at the lower of cost (generally average cost) and net realizable value.

Lease revenue

The excess of aggregate rentals less lease acquisition costs over the cost of leased assets is recorded as income over the term of the lease in decreasing amounts pro rata to the declining balance of the investment not yet recovered. All leases are fully funded and any gains arising from residual values of leased assets are reflected in earnings only when realized.

Accounting for oil and gas properties

The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Accounting for mining properties

Expenditures on general mineral exploration are charged to earnings as incurred. Expenditures incurred in the investigation of identified properties and in the development of mines are capitalized.

Capitalized expenditures, together with the costs of certain investments in mining companies, are amortized against earnings by charges for depletion based on the mineral resources position.

Accounting for iron and steel properties

Depreciation of manufacturing plant and equipment is provided on the straight-line basis at rates intended to write off these assets over their estimated economic lives. Mining equipment, mine development and deferred overburden removal costs are amortized on a unit of production basis over the estimated recoverable iron ore and coal reserves.

Expenditures on exploration for, investigation of, and holding, raw material properties, and costs of research, development and start-up of new production facilities, are charged to earnings as incurred.

Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.

Accounting for real estate properties

Land is carried at cost. Development costs and carrying costs, net of incidental revenue, are capitalized for land currently being developed or on which development is expected within five years, providing the book value of the land does not exceed market value. Carrying costs of all other land are included in operations.

Buildings and construction in progress are carried at cost, including interest during construction, pre-completion operating costs less any revenue, and other direct development expenses.

The sinking fund method of providing for depreciation is used for major real estate developments. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years.

Accounting for other properties

Depreciation and amortization of other properties are charged to earnings, generally on the straight-line basis, over the estimated economic lives of the facilities involved.

Interest on debt incurred to finance major expansion programs under forest products and hotels and food services is capitalized during the construction period.

Statement of Consolidated Income

For the Year ended December 31	1976	1975
	(in thousands)	
CP Rail		
Revenues (Page 15)	**$1,162,946**	$1,021,953
Expenses including income taxes	**1,111,849**	990,262
Net income	**51,097**	31,691
CP Trucks		
Revenues	**180,829**	171,406
Expenses including income taxes	**179,007**	168,529
Net income	**1,822**	2,877
CP Telecommunications		
Revenues	**67,379**	62,182
Expenses including income taxes	**65,369**	60,740
Net income	**2,010**	1,442
CP Air		
Revenues	**350,644**	332,120
Expenses including income taxes	**360,446**	338,518
Net income	**(9,802)**	(6,398)
CP Ships		
Revenues	**118,007**	115,043
Expenses including income taxes	**114,409**	100,472
Net income	**3,598**	14,571
Miscellaneous		
Net income	**15,055**	4,200
CP Investments Limited *(Page 14)*		
Revenues	**2,121,811**	1,909,732
Expenses including income taxes	**1,921,681**	1,688,451
	200,130	221,281
Minority interest	**82,375**	100,698
Net income	**117,755**	120,583
Equity in Income of Subsidiary not Consolidated	**8,889**	5,897
Net Income	**$ 190,424**	$ 174,863
Earnings per Ordinary Share	**$2.62**	$2.40

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Income

For the Year ended December 31		1976	1975
		(in thousands)	
	Balance, January 1	$1,377,002	$1,264,275
Add:	Reduction in insurance reserve	—	4,000
	Net income for the year	190,424	174,863
		1,567,426	1,443,138
Deduct:	Net increase in minority interest arising from conversion of preferred shares of CPI	3,882	2,648
	Commission and expense relating to issuance of preference shares by subsidiaries of CPI	1,562	—
	Dividends		
	7¼ % Preferred shares	2,251	2,396
	4% Preference stock	521	537
	Ordinary stock (per share — 1976 — 86¢; 1975 — 84.5¢)	61,630	60,555
	Total dividends	64,402	63,488
	Balance, December 31	$1,497,580	$1,377,002

Statement of Changes in Consolidated Financial Position

For the Year ended December 31		1976	1975
		(in thousands)	
Source of Funds	Net income for the year	$ 190,424	$ 174,863
	Add/(Deduct)		
	Depreciation, depletion and amortization	290,911	257,190
	Deferred income taxes	14,676	54,682
	Equity in net income of companies accounted for by the equity method	(24,642)	(18,471)
	Dividends from companies accounted for by the equity method	8,945	7,328
	Minority interest in income of subsidiaries	82,375	100,698
	Funds from operations	562,689	576,290
	Reduction in insurance fund	—	4,000
	Sales of investments	6,341	6,557
	Issuance of long term debt	408,847	556,138
	Issuance of preference shares by subsidiaries	110,000	—
	Proceeds from disposal of properties	32,284	26,182
	Working capital of subsidiaries acquired and consolidated	18,274	—
	Decrease in working capital	54,578	(86,001)
		$1,193,013	$1,083,166
Application of Funds	Additions to properties	$ 729,901	$ 730,851
	Additions to investments	27,961	18,280
	Additions to lease receivables (net)	16,174	20,810
	Investment in subsidiaries acquired and consolidated	31,571	—
	Reduction in long term debt	258,867	216,205
	Redemption of preferred shares	2,309	3,174
	Dividends declared	64,402	63,488
	Dividends paid minority shareholders of subsidiaries	46,708	48,088
	Sundries (net)	15,120	(17,730)
		$1,193,013	$1,083,166

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

Assets

December 31		1976 (in thousands)	1975
Current Assets	Cash and temporary investments, at cost (approximates market)	$ 329,260	$ 389,113
	Accounts receivable	554,461	505,852
	Rail materials and supplies, at cost or less	95,023	91,587
	Other inventories	445,467	361,238
		1,424,211	1,347,790
Insurance Fund, at cost	(approximate market $2,983,000; 1975 — $2,531,000)	3,571	3,270
Receivables under Leases	Amount due under lease agreements after one year	101,766	78,733
	Less: Deferred income	28,983	22,124
		72,783	56,609
Investments	Subsidiary company not consolidated	76,850	72,476
	Portfolio, at cost (market value $212,469,000; 1975 — $186,934,000) (Page 16)	216,814	217,990
	Other (Page 16)	245,687	218,365
		539,351	508,831
Properties, at cost (Page 16)	CP Rail	2,773,032	2,700,481
	CP Trucks	111,442	110,303
	CP Telecommunications	172,314	164,652
	CP Air	424,845	409,428
	CP Ships	427,800	380,637
	Miscellaneous	13,694	32,848
	CP Investments Limited	3,605,166	3,038,660
		7,528,293	6,837,009
	Less: Accumulated depreciation, depletion and amortization	2,865,333	2,606,538
		4,662,960	4,230,471
Other Assets and Deferred Charges		117,631	88,861
		$6,820,507	$6,235,832

Auditors' Report to the Shareholders of Canadian Pacific Limited:

We have examined the consolidated balance sheet of Canadian Pacific Limited and subsidiary companies as at December 31, 1976 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for the year then ended. For Canadian Pacific Limited and for those other companies of which we are the auditors and which are consolidated in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied upon the reports of the auditors who have examined the financial statements of the other consolidated subsidiaries, which include Cominco Ltd., The Algoma Steel Corporation, Limited, The Great Lakes Paper Company, Limited, Steep Rock Iron Mines Limited and Canadian Pacific (Bermuda) Limited and of Soo Line Railroad Company which is accounted for by the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants, Montreal, Quebec, March 11, 1977.

Consolidated Balance Sheet — Liabilities

December 31		1976	1975
		(in thousands)	
Current Liabilities	Bank loans	$ 126,542	$ 113,919
	Accounts payable and accrued liabilities	678,860	603,306
	Notes and accrued interest payable	304,041	273,269
	Income and other taxes payable	59,484	62,523
	Dividends payable	38,966	36,313
	Long term debt maturing within one year	154,313	141,877
		1,362,206	1,231,207
Deferred Liabilities		39,600	44,343
Insurance Reserve		3,571	3,270
Long Term Debt (Page 17)		1,700,840	1,536,268
Perpetual 4% Consolidated Debenture Stock (Page 18)		292,549	292,549
Minority Shareholders' Interest in Subsidiary Companies (Page 19)		782,342	625,510
Deferred Income Taxes		516,176	501,301
Shareholders' Equity	Preferred shares (Page 19)		
	Authorized — 23,403,849 shares of a par value of $10 each		
	Issued — 3,022,045 7¼ % Cumulative Redeemable Series A shares (1975 — 3,273,285)	30,220	32,733
	Preference stock — 4% non-cumulative		
	Authorized — an amount not exceeding one-half the aggregate amount of Ordinary stock outstanding		
	Issued — £865,019 in amounts of £1 and multiples thereof (1975 — £865,319)	4,210	4,211
	— in amounts of $3 and multiples thereof	11,539	11,539
		15,749	15,750
	Ordinary stock		
	Authorized — 100,000,000 shares of a par value of $5 each		
	Issued — 71,662,280 shares	358,311	358,311
	Premium on stock	113,808	113,603
	Other paid-in surplus	107,555	103,985
	Retained income	1,497,580	1,377,002
		2,123,223	2,001,384
		$6,820,507	$6,235,832

Approved on behalf of the Board:
Ian D. Sinclair, Director
F. S. Burbidge, Director

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Other Financial Information

CP Investments Limited — Net Income

	1976	1975
	(in thousands)	
Oil and gas		
Gross operating revenue	$206,941	$159,590
Expenses including income taxes	121,908	90,927
	85,033	68,663
Interest of outside shareholders	10,969	8,858
Net income	74,064	59,805
Mines and minerals		
Gross operating revenue	841,918	854,117
Expenses including income taxes	776,815	753,822
	65,103	100,295
Interest of outside shareholders	32,743	46,476
Net income	32,360	53,819
Forest products		
Sales and operating revenue	182,130	128,917
Expenses including income taxes	174,728	124,288
	7,402	4,629
Interest of outside shareholders	2,166	2,857
Net income	5,236	1,772
Iron and steel		
Sales and operating revenue	609,558	558,914
Expenses including income taxes	582,350	515,962
	27,208	42,952
Interest of outside shareholders	13,796	21,097
Net income	13,412	21,855
Real estate		
Gross rentals and other income	81,612	59,607
Expenses including income taxes	70,859	51,927
	10,753	7,680
Interest of outside shareholders	330	18
Net income	10,423	7,662
Hotels and food services		
Gross operating revenue	137,469	105,976
Expenses including income taxes	137,459	102,646
Net income	10	3,330
Finance		
Gross operating revenue	58,428	38,381
Expenses including income taxes	56,129	37,007
Net income	2,299	1,374
Other operations		
Gross operating revenue	20,391	10,348
Expenses including income taxes	19,590	10,757
Net income	801	(409)
Investment income		
Gross income	11,231	10,237
Expenses including income taxes	9,710	17,470
Net income	1,521	(7,233)
Income before interest of outside CPI shareholders	140,126	141,975
Interest of outside CPI shareholders	22,371	21,392
Net income	$117,755	$120,583

Other Financial Information

Rail Revenues

	1976	1975
	(in thousands)	
Freight revenue	$1,006,624	$ 887,666
Passenger services	21,708	21,497
Other railway	29,862	26,188
Coastal steamships	16,690	16,486
Government payments	88,062	70,116
	$1,162,946	$1,021,953

Income Taxes

	1976	1975
	(in thousands)	
Charged to income before equity in income of subsidiary —		
Current	$ 113,848	$ 103,791
Deferred	14,676	54,682
	$ 128,524	$ 158,473

Interest Expense

	1976	1975
	(in thousands)	
Long term debt and debenture stock	$ 153,151	$ 134,358
Short term debt	35,666	24,587
	$ 188,817	$ 158,945

Interest capitalized on funds borrowed to finance capital projects amounted to $17,373,000 (1975 — $10,592,000).

Depreciation, Depletion and Amortization Charged to Expenses

	1976	1975
	(in thousands)	
CP Rail	$ 76,454	$ 74,736
CP Trucks	5,901	5,808
CP Telecommunications	9,634	9,110
CP Air	30,441	26,143
CP Ships	16,970	13,222
Miscellaneous	402	764
CP Investments Limited		
Oil and gas	32,174	19,205
Mines and minerals	57,688	57,343
Forest products	16,097	12,718
Iron and steel	34,612	29,837
Real estate	4,118	2,861
Hotels and food services	5,605	4,703
Other operations	815	740
	$ 290,911	$ 257,190

Other Financial Information

Investment Portfolio as at December 31, 1976

	Number of shares	Percentage of outstanding voting shares	Cost	Approximate market value
			(in thousands)	
Common Stocks				
Husky Oil Ltd.	354,000	3.54	$ 4,053	$ 7,214
MacMillan Bloedel Limited	2,849,600	13.40	82,560	66,624
MICC Investments Limited	348,800	6.10	1,597	2,965
Norcen Energy Resources Limited	358,200	1.61	5,015	4,255
Rio Algom Limited	1,331,956	9.86	30,823	37,628
TransCanada PipeLines Limited	4,732,457	12.43	56,203	62,705
Union Carbide Canada Limited	825,300	8.25	18,375	15,681
Other			6,449	5,469
			205,075	202,541
Preferred Stocks			3,924	2,290
Bonds, Debentures and Notes			7,815	7,638
			$216,814	$212,469

Other Investments

	1976	1975
	(in thousands)	
Dominion Bridge Company, Limited, at cost plus equity in undistributed net income	**$ 76,184**	$ 64,282
Others, at cost:		
Tara Exploration and Development Company Limited	**26,903**	26,903
Panarctic Oils Ltd.	**33,007**	27,190
Tilden Iron Ore Company	**19,811**	18,725
Northern Alberta Railways Company	**25,340**	25,340
The Toronto Terminals Railway Company	**9,182**	9,182
Other	**55,260**	46,743
	$245,687	$218,365

Properties and Accumulated Depreciation, Depletion and Amortization

	1976			1975
	(in thousands)			
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
CP Rail (a)	$2,773,032	$1,336,665	$1,436,367	$1,404,694
CP Trucks	111,442	48,752	62,690	63,071
CP Telecommunications	172,314	80,009	92,305	91,136
CP Air	424,845	173,424	251,421	263,917
CP Ships (b)	427,800	57,949	369,851	338,143
Miscellaneous	13,694	1,225	12,469	18,069
CP Investments Limited				
Oil and gas	601,710	170,385	431,325	346,025
Mines and minerals	1,011,682	368,092	643,590	554,562
Forest products	493,027	152,775	340,252	271,321
Iron and steel	963,802	414,167	549,635	517,567
Real estate	367,649	21,783	345,866	256,836
Hotels and food services	151,239	37,214	114,025	99,391
Other operations	16,057	2,893	13,164	5,739
Total CP Investments	3,605,166	1,167,309	2,437,857	2,051,441
	$7,528,293	$2,865,333	$4,662,960	$4,230,471

(a) Includes $44,289,000 (1975 — $45,420,000) securities of leased railway companies.
(b) Includes $1,358,000 (1975 — $10,151,000) foreign currency advances on vessels under construction.

Other Financial Information

Long Term Debt

	1976	1975
	(in thousands)	
Canadian Pacific Limited		
Collateral Trust Bonds		
Six year 8¼%, due 1977	$ 20,000	$ 20,000
Twenty-five year 5%, due 1983	31,715	37,401
Twenty year 8½%, due 1989	6,288	6,452
Twenty-one year 8⅞%, due 1992	48,500	50,000
Twenty year 10.35%, due 1994	74,250	74,250
Twenty year 11¼%, due 1995	60,000	60,000
Equipment Trust Certificates		
Series "P", 5%, due 1978-1981	7,139	8,924
Series "R", 6⅜%, due 1982	9,625	11,085
Series "S", 6.9%, due 1983	8,371	9,794
Series "T", 8¼%, due 1984	17,013	17,833
Series "U", 8½%, due 1989	22,446	23,426
Series "V", 10⅛%, due 1990	40,376	43,260
Bank loans and sundry borrowings, due 1977-1985	174,112	179,366
Canadian Pacific (Bermuda) Limited — mortgages, due 1977-1982	30,626	26,482
Canadian Pacific Steamships, Limited		
Bank loan, due 1979	6,417	9,735
Canadian Pacific Transport Company, Limited		
Bank loans	6,003	12,308
Canadian Pacific Investments Limited		
Income debentures, 5⅝%-7½%, due 1977-1979	60,800	93,700
Bank loan, due 1978	5,000	5,000
The Algoma Steel Corporation, Limited		
Sinking fund debentures, 5¼%, due 1978	10,875	11,660
Sinking fund debentures, 7⅜%, due 1987	24,000	25,200
Sinking fund debentures, 8¾%, due 1991	32,695	34,000
Sinking fund debentures, 10⅜%, due 1994	50,000	50,000
Sinking fund debentures, 11%, due 1995	65,000	65,000
Notes, 8½%, due 1991	22,000	22,000
Short term — convertible into term loans to 1977	50,000	50,000
Other	15,562	5,452
Canadian Pacific Hotels Limited		
First mortgage sinking fund bonds, 8⅝%, due 1992	20,000	20,000
First mortgage sinking fund bonds, 11⅜%, due 1995	30,000	30,000
Sundry — due 1977-1985	9,065	9,299
Canadian Pacific Securities Limited		
Sinking fund debentures, 9½%, due 1990	23,500	24,250
Sinking fund debentures, 9⅜%, due 1990	37,600	38,800
Sinking fund debentures, 8¼%, due 1993	15,000	15,000
Notes, 9¼%-10⅛%, due 1980-1983	75,000	5,000
Debentures, 10½%, due 1984	30,000	30,000
Bank loan, 7%, due 1979	25,000	25,000
CanPac Leasing Limited — bank loans, due 1977-1980	14,404	18,781
Cominco Ltd.		
Sinking fund debentures, 8½%, due 1991	61,740	64,850
Sinking fund debentures, 10⅞%, due 1995	60,000	60,000
Bank loans, due 1977-1984	34,777	27,660
Notes, due 1982-1995	49,224	—
Subsidiaries of Cominco Ltd.	61,843	71,355
Fording Coal Limited — bank loans, due 1977-1978	31,010	48,029
The Great Lakes Paper Company, Limited		
Sinking fund bonds, 8%, due 1989	17,060	17,650
Sinking fund bonds, 11¼%, due 1995	35,000	35,000
Marathon Realty Company Limited		
Sundry loans and mortgages payable 1977-2006	128,787	56,138
Bank loans, due 1977-1983	26,973	28,625
Carried forward	$1,684,796	$1,577,765

Other Financial Information

Long Term Debt
(continued)

	1976	1975
	(in thousands)	
Brought forward	**$1,684,796**	$1,577,765
PanCanadian Petroleum Limited		
Sinking fund secured debentures, 8⅛%, due 1992	**25,000**	25,000
Sinking fund secured debentures, 8¾%, due 1992	**25,000**	25,000
Sinking fund debentures, 9¾%, due 1983	**35,000**	—
Bank loans, due 1977-1984	**55,429**	39,946
Steep Rock Iron Mines Limited		
Sundry — due 1977-1981	**12,498**	—
Other companies	**17,430**	10,434
	1,855,153	1,678,145
Less: Long term debt maturing within one year	**154,313**	141,877
	$1,700,840	$1,536,268

Collateral Trust Bonds of Canadian Pacific Limited are secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating in principal amount $525,134,000 at December 31, 1976 (1975 — $535,285,000).

Of the aggregate bank loans of $474,715,000 included above, approximately $286,353,000 bear interest at rates which fluctuate (in certain cases within defined limits) with the lender's prime commercial rate.

Foreign currency long term debt translated at current rates at December 31, 1976 would be $499,741,000, which is $2,367,000 more than the amount at which it is carried above.

Annual maturities and sinking fund requirements for each of the five years following 1976 are: 1977 — $154,313,000; 1978 — $165,302,000; 1979 — $128,555,000; 1980 — $103,829,000; 1981 — $148,254,000.

Perpetual 4% Consolidated Debenture Stock

	Sterling	United States Currency	Canadian Currency	Total
	(in thousands)			
Issued	£46,757	$252,500	$337,634	$817,683
Less: Pledged as collateral	—	187,500	337,634	525,134
	£46,757	$ 65,000	$ —	$292,549

Sterling translated at Can. $4.86⅔ to the £1; U.S. dollars on the basis of one Canadian dollar equals one U.S. dollar. At December 31, 1976, translated at current rates, the net amount outstanding would be $146,539,000.

Summarized Financial Information of Soo Line Railroad Company (U.S. Currency)

	1976	1975*
	(in thousands)	
Income Statement		
Operating revenues	**$189,289**	$161,155
Net operating income	**$ 25,211**	$ 19,049
Interest income	**2,316**	2,162
Other income — net	**2,203**	1,709
Fixed charges and contingent interest	**(6,429)**	(6,207)
Provision for income taxes	**(7,100)**	(6,300)
Net income	**$ 16,201**	$ 10,413
Canadian Pacific Limited equity in net income (Canadian currency)	**$ 8,889**	$ 5,897
Condensed Balance Sheet		
Current assets	**$ 82,639**	$ 67,247
Investments and special funds	**4,636**	9,566
Net properties	**262,778**	246,312
Other assets and deferred charges	**1,475**	1,431
	$351,528	$324,556
Current liabilities	**$ 47,954**	$ 38,989
Long term debt	**103,357**	97,126
Deferred income taxes	**38,900**	36,100
Other liabilities and deferred credits	**2,317**	1,947
Shareholders' equity	**159,000**	150,394
	$351,528	$324,556

*Restated from the equity basis to the consolidated basis of accounting with no effect on net income.

Notes to Consolidated Financial Statements

1. Preferred Shares

The series A preferred shares are redeemable at the Company's option after January 1, 1978 at $10.50 per share on or before January 1, 1981; at $10.25 thereafter and on or before January 1, 1984; and $10.00 thereafter. In addition, shares may be purchased for redemption at any time subject to certain price restrictions.

The Company is obligated to apply up to $2,000,000 in each year to the purchase of series A preferred shares, if available at a price not exceeding $10.50 per share plus costs of purchase. The price decreases to $10.25 after January 1, 1981 and $10.00 after January 1, 1984.

In 1976, 251,290 shares were purchased for $2,309,000; in 1975, 336,971 shares were purchased for $3,174,000.

In 1976, a further 50 series A shares were issued in exchange for £300 sterling preference stock. Exchange of these shares had been delayed pending settlement of estates.

2. Minority Interest

The minority shareholders' interest in subsidiary companies is comprised as follows:

	1976	1975
	(in thousands)	
PanCanadian Petroleum Limited	**$ 30,101**	$ 22,717
Cominco Ltd.		
$2.00 tax deferred exchangeable preferred shares, series A	**50,000**	—
Common share equity	**238,637**	233,048
The Great Lakes Paper Company, Limited	**28,724**	26,561
The Algoma Steel Corporation, Limited		
8% tax deferred preference shares, series A	**60,000**	—
Common share equity	**189,669**	188,605
Steep Rock Iron Mines Limited	**11,156**	—
Canadian Pacific Investments Limited		
4¾% convertible preferred shares, series A	**13,062**	20,701
Common share equity	**160,237**	133,471
Other	**756**	407
	$782,342	$625,510

Each CPI preferred share, series A, is convertible at the option of the holder to November 1, 1977 into two common shares of CPI, and is redeemable at CPI's option at $20 per share.

3. Pensions

At December 31, 1976, there were unfunded liabilities, determined by actuarial evaluations, of $603,000,000 which is being funded by a series of equal annual payments ending from 1989 to 1992, and $239,000,000 which is being funded by equal annual payments to 2027.

Pension expense, including current service costs and payments on account of unfunded liabilities, was $122,000,000 in 1976 (1975 — $105,000,000).

4. Commitments

The Company and its subsidiaries had placed orders or were otherwise committed to capital expenditures in the amount of $159,000,000.

Commitments for rent for freight cars and locomotives leased for varying periods through to 1995 amount to $111,000,000. Commitments under other long term leases amount to $344,000,000.

A subsidiary of Algoma Steel is participating in a joint venture producing iron ore pellets and is committed to pay its share of production and financial costs and of funds for debt retirement. Annual requirements to service its share of long term debt will average $7,100,000 during the next five years. Algoma Steel has entered into agreements under which it may be called upon to invest amounts in the subsidiary which would be available to meet such commitments.

An expansion of the production facilities is in progress to be financed by advances from the participants and further long term borrowings. The subsidiary is committed to make its share of advances aggregating an estimated $15,900,000 during the next three years and to provide funds estimated at an average of $15,300,000 per year during the five years commencing in 1980 to service its share of the further long term borrowings. This commitment is currently guaranteed by Algoma Steel.

5. Contingencies

The Company is a defendant in two suits by certain minority shareholders of Ontario and Quebec Railway Company, the railway of which the Company operates under a perpetual lease, claiming alleged misuse of the assets and also entitlement to the proceeds from the sale of Ontario and Quebec Railway Company's surplus lands. In the alternative, damages of $125,000,000 and $400,000,000 are claimed. Counsel have advised that in their opinion these suits can be successfully defended.

At December 31, 1976 PanCanadian Petroleum had incurred costs of $42,000,000 on equipment and design with respect to an ammonia plant. Due to adverse conditions which developed in 1976 with respect to the sale in the United States of the production from this plant, PanCanadian decided to defer on-site construction, for which there are no outstanding contractual obligations to complete. In 1976 PanCanadian amortized the costs to the extent of $8,000,000. If the ammonia market in the United States does not improve, these assets may be disposed of. In the opinion of PanCanadian such disposition would not result in any significant loss.

Notes to Consolidated Financial Statements

6. Acquisitions

As the result of a cash tender offer made January 19, 1976, CPI acquired 5,454,275 shares, or 67.64% of the outstanding stock, of Steep Rock Iron Mines Limited by March 3, 1976. Subsequent open market purchases increased the holding to 5,493,475 shares, or 68.13% of the shares outstanding, by December 31, 1976. Steep Rock is a producer of iron ore in northern Ontario, and holds a major potential ore property in that region. Effective November 30, 1976, CPI acquired all of the outstanding shares of Baker Commodities, Inc., a California corporation conducting a rendering business in the western United States. Both of these acquisitions were accounted for as purchases and consolidated from the dates of acquisition.

A summary of the assets acquired and the consideration given is as follows:

	(in thousands)	
	Steep Rock	Baker Commodities
Assets, at book values	$53,369	$21,291
Liabilities, at book values	18,948	10,947
	34,421	10,344
Interest of outside shareholders	(11,118)	—
	23,303	10,344
Adjustment of CPI proportion of assets to fair market values	(6,305)	4,229
	$16,998	$14,573
Consideration given		
Cash	$16,998	$ 3,939
Notes, 7%, due 1977-1984	—	10,634
	$16,998	$14,573

7. Restatement

In 1976, Cominco changed its basis of accounting for sales applicable to trading activities for the account of others so that only margins realized are included in gross operating revenue. The 1975 figures for gross operating revenue and expenses of Mines and Minerals have been restated to conform with this presentation. This change had no effect on net income.

8. Fully Diluted Earnings Per Share

Fully diluted earnings per share for 1976, calculated on the basis described in the Summary of Significant Accounting Policies, would be $2.58.

9. Anti-Inflation Legislation

The Company and certain of its subsidiaries are subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. The production of crude oil and natural gas and the rental of real property are exempt from the guidelines published under the Act.

10. Subsequent Events

In January 1977, Canadian Pacific Limited issued U.S. $35,000,000 of 8%-8⅝% Equipment Trust Certificates repayable over a period of fifteen years.

In February 1977, Great Lakes Paper approved an agreement to issue U.S. $20,000,000 8¾% unsecured debentures, due 1984, and arranged to borrow U.S. $30,000,000 for a term of two years, the interest rate to be determined when the funds are drawn down. The proceeds of these borrowings will be applied to reduce short term debt.

In January 1977, CP (Bermuda) completed a ship mortgage in Danish currency, equivalent to Canadian $22,600,000, at 7½% repayable over a period of eight years and in February 1977 completed a further ship mortgage in Japanese currency, equivalent to Canadian $9,900,000, at 8¾% repayable over a period of six years.

Five-Year Summary

	1972	1973	1974	1975	**1976**
	(in thousands)				
Net income from:					
CP Rail	$39,123	$ 35,189	$ 44,573	$ 31,691	**$ 51,097**
CP Trucks	760	(3,007)	(104)	2,877	**1,822**
CP Telecommunications	2,314	1,312	726	1,442	**2,010**
CP Air	5,161	4,199	2,441	(6,398)	**(9,802)**
CP Ships	3,281	3,114	18,624	14,571	**3,598**
Miscellaneous	4,858	5,233	1,827	4,200	**15,055**
CP Investments Limited	35,180	63,772	114,233	120,583	**117,755**
Equity in income of subsidiary not consolidated	4,465	8,997	7,785	5,897	**8,889**
Income before extraordinary items	95,142	118,809	190,105	174,863	**190,424**
Extraordinary items	1,931	6,179	4,253	—	**—**
Net income	$97,073	$124,988	$194,358	$174,863	**$190,424**
Per Ordinary share					
Income before extraordinary items	$1.27	$ 1.60	$ 2.61	$ 2.40	**$ 2.62**
Net income	1.30	1.69	2.67	2.40	**2.62**
Dividends	$0.70	$ 0.77	$ 0.86	$ 0.845	**$ 0.86**
Market price — High	$16¾	$19¼	$17¾	$17⅛	**$18⅞**
(Toronto Stock Exchange) — Low	13⅞	14	10½	12⅝	**13¼**
Price/earnings ratio — High	13	11	7	7	**7**
— Low	11	8	4	5	**5**

Geographic Distribution of Net Property Investment

at December 31, 1976

	Properties at Cost, less Depreciation	Percent of Total
	(millions)	
Canada		
Maritimes	$ 30	—%
Quebec	318	7
Ontario	1,209	26
Manitoba	96	2
Saskatchewan	229	5
Alberta	648	14
B.C., NWT & Yukon	691	15
Transportation Equipment	800	17
	4,021	86
Outside Canada		
U.S.A.	180	4
Other	97	2
Ocean Ships	365	8
	642	14
Total	$4,663	100%

Canadian Pacific Limited

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